Greener or greyer: What's next for the future EU budget?

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The Special Summit on the 2014-2020 EU Multiannual Financial Framework (MFF) on 22 and 23 November 2012 did not facilitate an agreement among Heads of State and Government. Instead it marked another stage in the drama between net-paying and net-receiving Member States. Discussions are now scheduled to continue in 2013.

Key messages

- The MFF negotiations should re-focus on the substance of expenditure plans, particularly identifying areas of outstanding EU 'added value'
- This is the only meaningful way to inform an agreement on where to concentrate or cut back particular funds
- If further cuts are agreed, they should not come at the expense of environmental priorities
- The endorsement of the commitment to spend 20 per cent of the total MFF on climate action is very helpful but provisions for environmental / climate mainstreaming, better spending and policy coherence should be strengthened
- Considerably delaying the deal on the future MFF implies that future expenditure programmes will be developed under policy uncertainty and time pressure, thereby compromising their quality

WHAT ARE THE MAIN POINTS OF FRICTION?

The outcome of the Summit indicates that cuts to the overall budget are likely before an agreement is reached. Back in June 2011, the European Commission put forward a proposal for a €1,045bn budget for the 2014-2020 EU Multiannual Financial Framework (MFF)[1]. This represents an overall increase of 5 per cent compared to the 2007-2013 MFF, but not in terms of a percentage of the EU's wealth[2]. The biggest increases proposed are in the areas of research, innovation, security and citizenship and in actions outside the EU, including the costs of the enhanced diplomatic representation. The total budgets for the Common Agricultural Policy (CAP) and Cohesion Policy have been reduced.[3] Regardless of this, they remain the biggest pot of money in the Commission's proposed MFF (just below 70 per cent or some €710bn).

The European Parliament supports the Commission's proposals. In fact, MEPs have warned the Council against any attempt to reduce further the level of EU expenditure and stressed that if it does propose cuts, it should identify political priorities or projects that should be dropped altogether.[4]

Since the beginning of the negotiations, Member States' positions and preferences have followed predictable pathways. The group of major net payers (the UK, Germany, Sweden, the Netherlands and Finland) demanded considerable cuts (of a magnitude of €100bn or more). Others, particularly beneficiaries, insisted on well-funded CAP and Cohesion Policies (France, Poland and Hungary). In October 2012, the Cypriot Presidency presented a 'negotiating box' setting out parameters for an agreement that included draft figures for a first time. The Presidency proposed cuts of about €50bn, relative to the Commission draft with the deepest cuts for directly managed instruments in the area

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[1] European Commission (2011) A Budget for Europe 2020 – Part I, Communication from the Commission, COM(2011)500, 29.06.2011,

[2] Expressed by the gross national income (GNI)

[3] Although the CAP budget is reduced, it should be noted that support for the agricultural sector is earmarked under various other headings including Horizon 2020 (€4.5 billion), food safety under the heading "Security and Citizenship" (€2.2 billion), and food aid for the most deprived regions under the heading "Smart and Inclusive Growth" (€2.5 billion). Outside the MFF, additional aid from the European Globalisation Adjustment Fund (€2.5 billion) and the creation of a specific reserve for managing crises in the agricultural sector (€3.5 billion).

[4] EP (2012) Interim Report in the interests of achieving a positive outcome of the Multiannual Financial Framework 2014-2020 approval procedure (2011/0177(APP)), 12.10.2012

of infrastructure development (Connecting Europe Facility (CEF), fisheries (EMFF) and the environment (LIFE)).[5] Several days before the Special Summit in November, when national leaders made a first attempt to narrow their differences, Herman van Rompuy presented a revised negotiating box. He suggested deeper cuts of €73bn, including more significant reductions in the CAP, Cohesion Policy and the budget for EU administration. Rural Development was cut heavily (-9 per cent). After a round of bilateral talks with the Heads of State and Government during the Special Summit however, van Rompuy tabled a new compromise: it maintained the overall reduction but realised this in different ways, taking some pressure off Cohesion Policy (down to a 3 per cent cut) and the CAP (particularly direct payments under Pillar One while Rural Development remained -9 per cent).[6] Table 1 summarises the main changes in the MFF figures under this succession of propositions.

Table 1. The evolution of MFF figures during the negotiation process

MFF 2014-2020 budget headlines	MFF 2007-2013	EC Proposal, July 11	% change from 07-13	Council			% changes vs. EC COM		
				CY	HvR 1	HvR 2	CY	HvR 1	HvR 2
Smart inclusive growth 1	446,310	503,311	12.8	472,811	462,147	459,691	-6.1	-8.2	-8.7
Competitiveness 1a	91,495	164,317	79.6	146,317	152,652	139,543	-11	-7.1	-15.1
Cohesion Policy 1b	354,815	338,994	-4.5	326,494	309,495	320,148	-3.7	-8.7	-5.6
Sustainable growth 2	420,682	389,972	-7.3	378,972	364,472	372,339	-2.8	-6.5	-4.5
Direct payments 2a	304,831	286,551	-6	277,401	269,852	277,852	-3.2	-5.8	-3
Reserve for agri crisis		3,500				2,800			
Rural Development 2b	98,140	91,966	-6.3	90,816	83,666	83,666	-1.3	-9	-9
EMFF and LIFE 2c	14,211	11,208	-21.1	9,432	10,954	10,711	-15.8	-2.3	-4.4
Security citizenship 3	12,366	18,809	52.1	18,109	18,309	16,685	-3.7	-2.7	-11.3
Global Europe 4	56,815	70,000	23.2	64,650	65,650	60,667	-7.6	-6.2	-13.3
Administration 5	57,082	63,165	10.7	63,165	62,629	62,629	0	-0.8	-0.8
TOTAL MFF	**994,175**	**1,045,284**	**5.1**	**997,734**	**973,234**	**971,916**	**-4.5**	**-6.9**	**-7**
as per cent of GNI	1	1.09			1.01	1.01			

Sources: EC, Council

**€ Million in 2011 prices*

Quite a few Member States still consider the proposed cuts to be insufficient. Net payers like the UK, the Netherlands and Sweden continue to demand deeper cuts to the overall budget. At the same time, new Member States (Poland, Hungary) and France, supported by Italy and Ireland, do not seem too worried about the overall cuts as long as the envelopes of primary interest to them, respectively for Cohesion Policy and the CAP, remained more or less intact.

[5] Council of the European Union (2012) Multiannual Financial Framework (2014-2020) - Negotiating box. 15599/12, 20.10.2012, Brussels

[6] European Council (2012) Draft Conclusions, European Council 22-23 November 2012, 22.11.12, Brussels

In the high profile exchanges over the national shares and the overall total to be spent, critical issues about substance get swept under the table. One of the more novel aspects of the MFF proposals, an attempt to make it significantly greener, needs attention and support in the critical months that lie ahead.

WHAT IS AT STAKE?

The Commission proposals from June 2011 outlined a greener future EU budget with a focus on delivering better results. In the last months, the political negotiations among Member States have been sobering, though. UK domestic politics, readjustments in German-Franco relations and the determination of Heads of State and Government to fight for their national interests made reaching an agreement a very difficult task. The EU budget negotiations have never been easy, but the gap between Member States and also the European Parliament will be difficult to close.

More focus on substance

Of course the overall size of the EU budget and its distribution among Member States matters, especially in times of austerity and economic crisis. However, this is precisely the time to recognise that business as usual for the next seven year budget is an unsatisfactory option. Especially if cuts are inevitable, more discussion about substance and priorities is essential in the months ahead.

The EU budget is still largely reflective of past priorities. The world has changed, however. Research, innovation, the decarbonisation of infrastructure, climate change, resource competition and a demographic shift all shape the challenges the EU faces and should guide future priorities. Kick starting the transition to a competitive low-carbon, resource efficient and inclusive economy is clearly enshrined in the Europe 2020 Strategy. The future EU budget should support this orientation to the greatest extent possible.

It is critical therefore that the MFF discussion steps back from old battle lines around national interests and re-focuses on the core substance, particularly identifying areas of outstanding EU 'added value'. Cutting crudely across the board may seem convenient for reaching a compromise but it is not an effective strategy to steer the EU out of the current crises. The EU cannot afford another long-term budget which is reflective of the priorities of the past.

Additional cuts should not come at the expense of environmental priorities

Spending areas for research, infrastructure, citizenship and external actions, which saw the biggest increase relative to current spend in the Commission proposals, are likely to take the hit of whatever further cuts should be made although their total size might still increase. However, the maximum these areas could yield up is unlikely to deliver the size of cuts that net payers are demanding. Further reductions to the envelopes of the CAP and Cohesion Policy therefore seem unavoidable, unless net-payers accept lower cuts.

While this may not be the intention, in practice there is a considerable risk that cutting these envelopes will come at the expense of environmental priorities. For example, the only dedicated environment and climate programme, LIFE, which accounts for less than 1 per cent of the total MFF, has been trimmed down in all versions of the negotiating box. This is because it is in the group of directly managed funds where national budgeting interests are weaker. On the CAP, there is a danger that Rural Development, where most of the environmental spending is realised, could be compromised as a consequence of an attempt to protect the scale of Pillar One (Direct Payments to farmers). This happened previously during the last MFF negotiations when a pre-emptive Franco-German deal resulted in the protection of Pillar One, and diminished Pillar Two funding for the current period. It almost happened in the run up to the publication of the Commission's MFF proposals in June 2011. There is also a risk that some Member States may argue that greening Pillar One, which is a key aspect of the CAP reform proposals, is a substitute for Pillar Two agri-environment programmes and hence it is acceptable that Pillar Two absorbs most of the expected cuts in the CAP budget.[7]

Similarly, it is likely that a reduction in the overall Cohesion Policy budget could lead to a reduction of environment and climate related spending, as national managing authorities are likely to seek to retain expenditure on traditional growth and jobs objectives and realise cuts in 'new' areas of spending. Cutting down the directly managed Connecting Europe Facility could also put more pressure on the future Cohesion Policy to prioritise road building and fossil fuel facilities over more sustainable modes of transport and cleaner energy supply systems.

Stepping up climate spending is an important step in the right direction…

Alongside the environmental risks one very positive signal from the November negotiations was the endorsement of the Commission's proposal to spend at least 20 per cent of the total MFF on climate related actions. This commitment is included in the latest version of the negotiating box and the draft conclusions. If this provision survives the rest of the MFF negotiations, it could provide the necessary impetus for stepping up low carbon investment. There are enormous investment requirements lying ahead for most European countries, for example in improved electrical transmission and renewable energy systems, some identified in the chronically under-funded EU Strategic Energy Technologies plan (SET-Plan). The EU budget has a clear role in promoting such spending. Moreover, there is a growing body of evidence indicating that investing in climate and resource intelligent measures can deliver multiple benefits for different policy priorities, including competitiveness, jobs and security of energy supply. Identifying and concentrating future EU spending on these win-win areas that contribute to several EU strategic objectives should be a priority for the next round of political negotiations on the MFF.

…but provisions should be further strengthened

Effectively mainstreaming environmental and climate change concerns, however, does not stop with the 20 per cent dedicated spending commitment. The whole MFF should be adjusted to future challenges, including climate change impacts and resource scarcity. A recent report from the European Environment Agency highlights that climate impacts are already tangible in the EU in

[7] IEEP (2012) *MFF negotiations risk reducing funding for rural land management*, 1.11.2012, Brussels

terms of damage costs and economic losses.[8] Any expenditure that is not climate-proofed runs the risk of wasting scarce public money.[9] Improving resource efficiency is a priority for the entire economy and should include attention to underpinning the secure and effective provision of ecosystem services (including clear water and air).

Strengthening the policy coherence, result-orientation and performance of the future budget is also critical. For example, if the future CEF promotes carbon intensive energy and transport projects with the objective of removing bottlenecks and creating cross border links without considering their potential negative impact on greenhouse gas emissions, such projects will be sub-optimal and offer less added value from a EU perspective. Discouraging carbon intensive and environmentally damaging spending is thus imperative and, in fact, offers avenues for significant savings if further cuts are being pursued. The role of ex-ante conditionalities and assessments should go hand in hand with improved monitoring, tracking and reporting on EU spending. If a suitable mechanism is in place it will be easier to forge a political compromise on the overall size of the budget.

The danger of further delaying an agreement

Heads of State and Government have postponed the MFF discussion until early next year. It is uncertain whether an agreement will be reached by that time or whether more time will be needed. Even if Member States reach an agreement, and it includes further cuts to the MFF, it is possible that the European Parliament will not give its consent. In any case, longer delays could complicate the process further. For example, the delay in the MFF already has negative effects on the parallel process of negotiating the legislative package on the CAP in the Agriculture Council, which has failed to agree on a partial general approach. On Cohesion Policy, four agreements on a partial general approach have been reached by the General Affairs Council so far. However, these could all be revisited pending the final MFF agreement, following the principle that '*nothing is agreed until everything is agreed*'.

Significant delays in these processes and potential further modifications to the legislative packages inevitably will disrupt the process of drawing up expenditure programmes and the extent of preparation by responsible authorities. The programmes should be developed at national and regional levels throughout 2013 in order to enter into force on 1 January 2014. There is a growing risk that the Partnership Agreements and programmes will have to be prepared in the context of policy uncertainty and considerable time pressure. The proposed provisions for climate and environmental mainstreaming require a well organised programming process, compliance with ex-ante conditionalities, carrying out ex-ante evaluations (including a Strategic Environmental Assessment), analysing and identifying priority axes and interventions as well as involving a range of relevant partners. In order to be done in a meaningful way, all these steps in the programming process require time and clear policy signals. There is a real danger that the implementation of

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8 EEA (2012) *Climate change, impacts and vulnerability in Europe 2012: An indicator-based report*, Summary N12, 2012: Copenhagen: EEA.

9 Hjerp, P., Volkery, A., Lückge, A., Medhurst, J., Hart, K., Medarova-Bergstrom, K., Tröltzsch, J., McGuinn, J., Skinner, I., Desbarats, J., Slater, C., Bartel, A., and ten Brink, P., (2012), *Methodologies for Climate Proofing Investments and Measures under Cohesion and Regional Policy and the Common Agricultural Policy*, A report for DG Climate, August 2012.

future programmes will be significantly delayed or their quality will be compromised if an agreement on the overall policy frame is deferred.

IN CONCLUSION

It will not be unusual if a deal on the MFF is reached in the very last moment. Moreover, if reaching a good deal requires more time, then this is justified. However, if the overall size of the budget and adjustments to meet national requirements continue to dominate the negotiations this is likely to affect the overall quality of expenditure negatively. A stronger focus on the real priorities and mechanisms to achieve better spending is urgently needed, difficult as it may seem. The EU cannot afford a final MFF that both embeds past priorities and continues spending without a greater capacity to achieve agreed results and effective performance.

Furthermore, extended delays in agreeing the regulatory framework create policy risks and time pressures for the programming and implementation of future expenditure programmes. How EU funds are spent on the ground depends very much on how the future programmes are developed; preparation time is critical; the regulatory framework should be put into place sooner rather than later.

There is the opportunity to integrate climate change and resource efficiency objectives in the future MFF building on a good start. The endorsement of the commitment to spend at least 20 per cent of the MFF on climate related activities is definitely a step in the right direction. However, any further cuts should not be realised at the expense of areas where most environmental benefits are realised.

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